



## **Global TV Economics in 2010 – Recovery or Retrenchment?**

**C21 Media Primetime Strategies Live 2010 – Thursday 25<sup>th</sup> February**

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- Just how bad was 2009?
- What's likely to happen in 2010...and beyond?
- How will this impact programming strategies?
- The new 'content conundrum'
- Conclusions

# Just how bad was 2009?

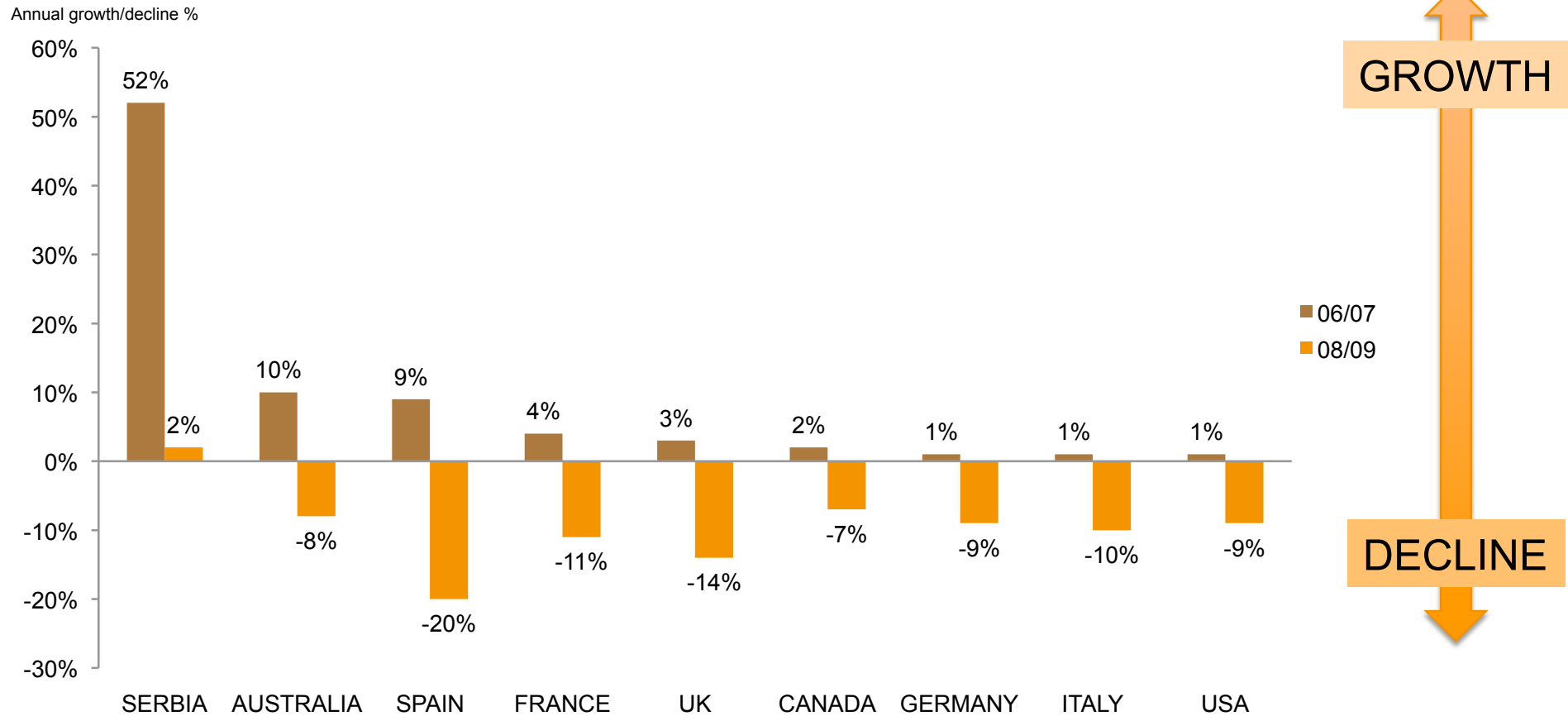
## Commercial broadcasting



Trends

Commercial broadcasters were badly hit by the recession with their main source of funding (advertising revenue) plummeting in all Western markets...

Net TV advertising revenue annual growth rates by market, 06/07 versus 08/09



# Just how bad was 2009?

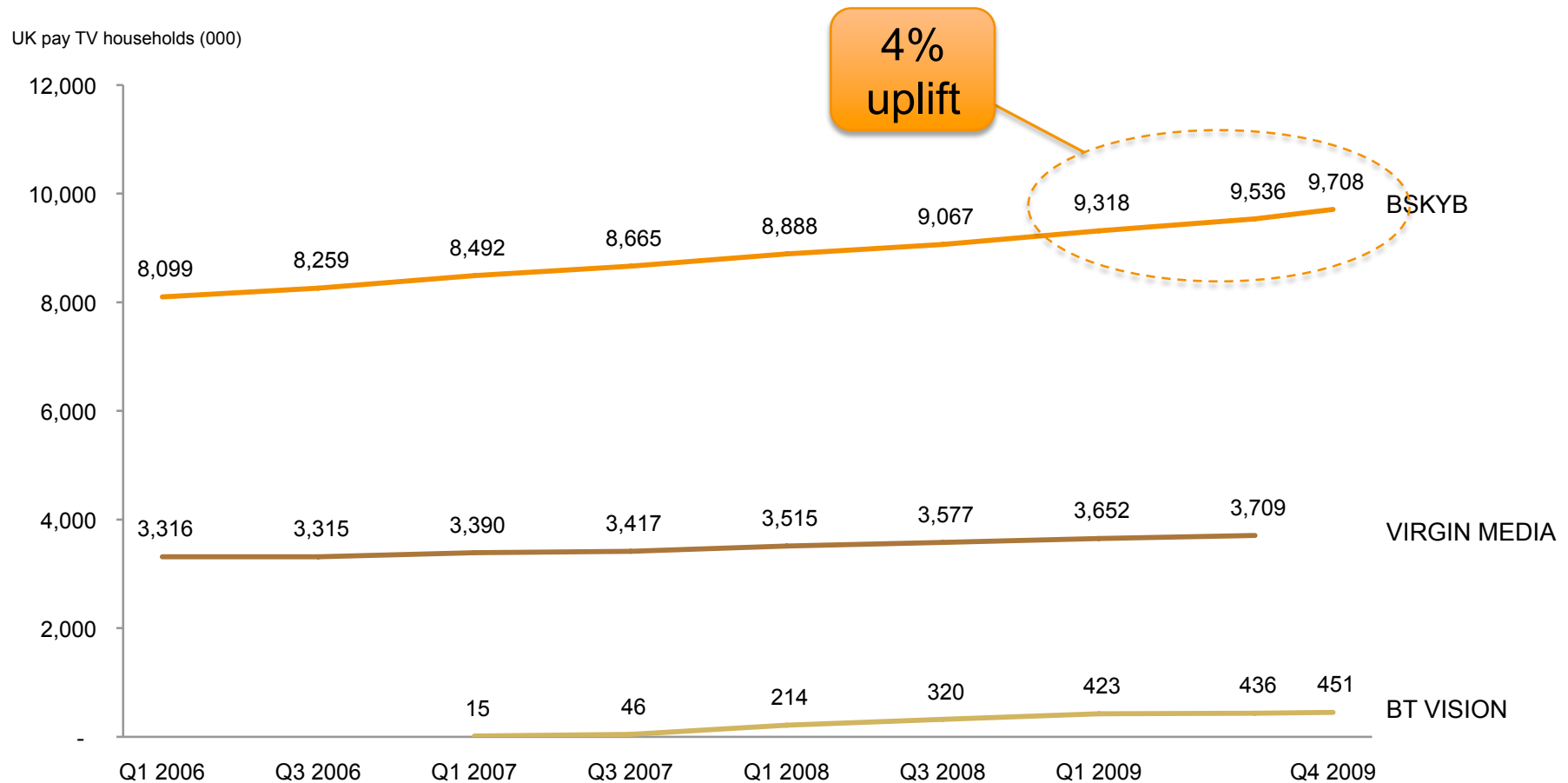
## Pay TV market



Trends

Pay TV continued to triumph in the face of adversity growing revenues and subscribers through the recession, developing new services and investing more in original content...

UK pay TV households by platform operator, Q106 to Q409



Source: Company reports, Enders Analysis

## Just how bad was 2009?

### Publically funded broadcasters



Trends

While in the UK the licence fee has come under question by a potentially shifting political landscape, in other territories public funding remains an important part of overall TV economics and flows to content

#### Public funding by key markets

	Annual licence fee (€)	% of TV market	Recessional/ Political pressures
<b>Germany</b>	216	40%	<ul style="list-style-type: none"> <li>Public funding of ZDF and ARD unlikely to change given market structure</li> </ul>
<b>UK</b>	162	23%	<ul style="list-style-type: none"> <li>Political pressure to reduce or redistribute licence fee</li> </ul>
<b>Spain</b>	-	18%	<ul style="list-style-type: none"> <li>RTVE severely indebted and has been receiving increased government funding over the last few years</li> </ul>
<b>Italy</b>	108	16%	<ul style="list-style-type: none"> <li>No movement to reduce licence fee although some politicians have recently opined that fee remains too high</li> </ul>
<b>France</b>	118	15%	<ul style="list-style-type: none"> <li>Indexed to CPI so has continued to rise through recession</li> </ul>
<b>Australia</b>	-	12%	<ul style="list-style-type: none"> <li>Communications Minister believes ABC has been '<i>underfunded for years</i>'</li> </ul>
<b>Canada</b>	-	10%	<ul style="list-style-type: none"> <li>Focus on promoting local content in Canada likely to restrict any political will to reduce the licence fee</li> </ul>

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## Just how bad was 2009?

Retrenchment to aid recovery...

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Trends

The recession has exacerbated a number of structural issues within broadcasting and forced executives to make difficult decisions around programming, mergers, staff cuts and profitability

### PROGRAMMING CUTBACKS

- TF1 & M6 recently announced '09 reductions of 10% & 12.5% respectively
- Rai cut spending on fiction in '09
- Antenna 3 by 12% in '09
- ITV and C4 cutbacks of between 7% and 10%

### STAFF CUTS

- Reduced 'headcount' at both TF1 and France Télévisions
- Mediaset 50+ jobs
- 600 jobs at ITV, 150 at Channel 4 & 80+ at Five

### CONSOLIDATION

- Telecinco acquired Cuatro & Antena 3 merged with La Sexta
- Continued rumours of C4/Five or ITV/Five merger
- CME, MTG and Antenna 3 acquiring commercial broadcasters
- Merge with your mining firm – Seven Network in Australia

### VERTICAL INTEGRATION

- ITV increasing its focus on production & international exploitation
- US Studios launching production hubs outside United States
- Video on demand offerings and potential of Canvas

### ACCEPTANCE OF LOWER MARGINS

- From 30%-35% to 15%-20% margin business



- Just how bad was 2009?
- What's likely to happen in 2010...and beyond?
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- The new 'content conundrum'
- Conclusions

# What's likely to happen in 2010...and beyond?

Macroeconomic, new business models and new strategies



Trends

In the absence of a double dip recession, an improving macroeconomic environment, the emergence of new business models and a drive to some longer term strategies will result in an improvement in broadcasting's position

## MACROECONOMIC TRENDS

- Advertising growth will return in many markets – although from a deep trough
- Pay TV's strong growth will continue
- Licence fee remains untouched for now

## NEW BUSINESS MODELS

- Rely less on advertising and focus on new revenue streams:
  - Product placement
  - Premium Rate Telephony Services (PRTS)
  - Video on Demand (VoD)
  - Mobile TV
  - Targeted advertising
  - Advertiser Funded Programming (AFP)

## NEW APPROACH TO CORE BUSINESS

- Commercial networks moving to pay TV model?
- A restructuring of the broadcasting industry
  - Further consolidation
  - Polarisation
  - Market exit
  - New tiering structure



# What's likely to happen in 2010?

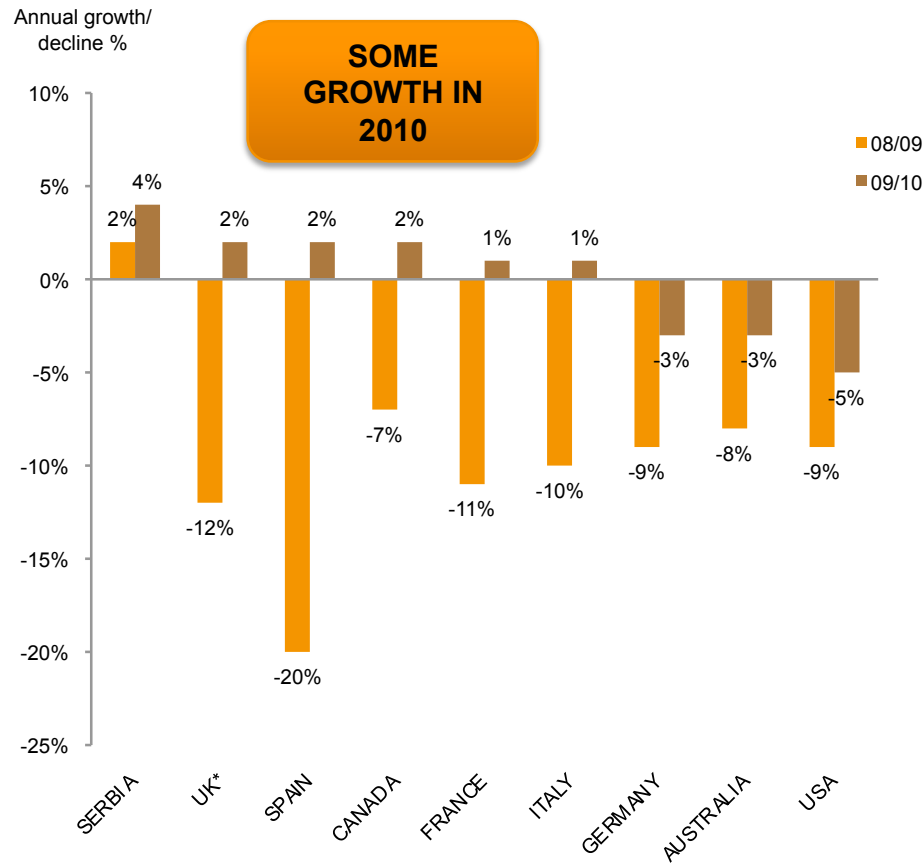
Things already starting to look better



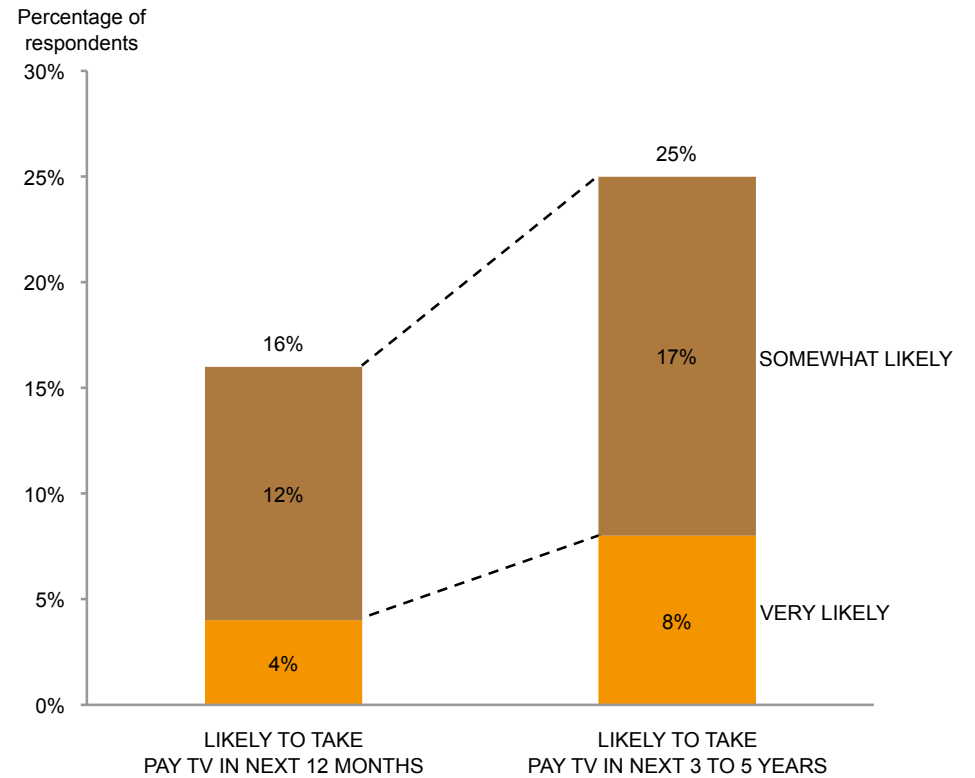
Trends

The outlook for advertising is much healthier with growth predicted following the trough in '09. Pay TV is likely to continue its ascendancy driven by new product launches, bundling & content investment

Net TV advertising revenue annual growth rates by market, 08/09 versus 09/10



How likely are you to change to a pay TV service in the next 12 months/next 3-5 years?



\*From O&O UK Model – includes sponsorship revenues  
Source: Zenith Optimedia, Oliver & Ohlbaum Consumer Research

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## What's likely to happen in 2010...and beyond?

New business models

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Trends

Within the current broadcasting structures there a number of new business models being employed

### NEW BUSINESS MODELS

- Product placement
- Premium Rate Telephony Revenues (PRTS)
- Video on Demand (VoD)
- Mobile TV
- Targeted advertising
- Advertiser Funded Programming (AFP)



# What's likely to happen in 2010?

## New business models – product placement



Trends

Following the EC's AVMS Directive, product placement is now being considered in a number of markets as a way of compensating for declining advertising revenues – however forecasts suggest it won't change the game

Examples of product placement – American Idol & Sex in The City



"American Idol" judges Randy Jackson, Paula Abdul and Simon Cowell, with Coke glasses Fox

### Indirect Marketing

Network shows with the most product placements in the first quarter of 2008

Program	Network	Number of occurrences
The Biggest Loser	NBC	3,977
American Idol	FOX	3,291
The Apprentice	NBC	1,646
Deal or No Deal	NBC	1,603
Extreme Makeover Home Edition	ABC	1,011
Big Brother 9	CBS	1,011
CW Now	CW	929
Pussycat Dolls Present	CW	805
America's Next Top Model	CW	574
One Tree Hill	CW	557

Source: Nielsen Media Research



= £25m - £30m  
or  
<1% NAR

# What's likely to happen in 2010?

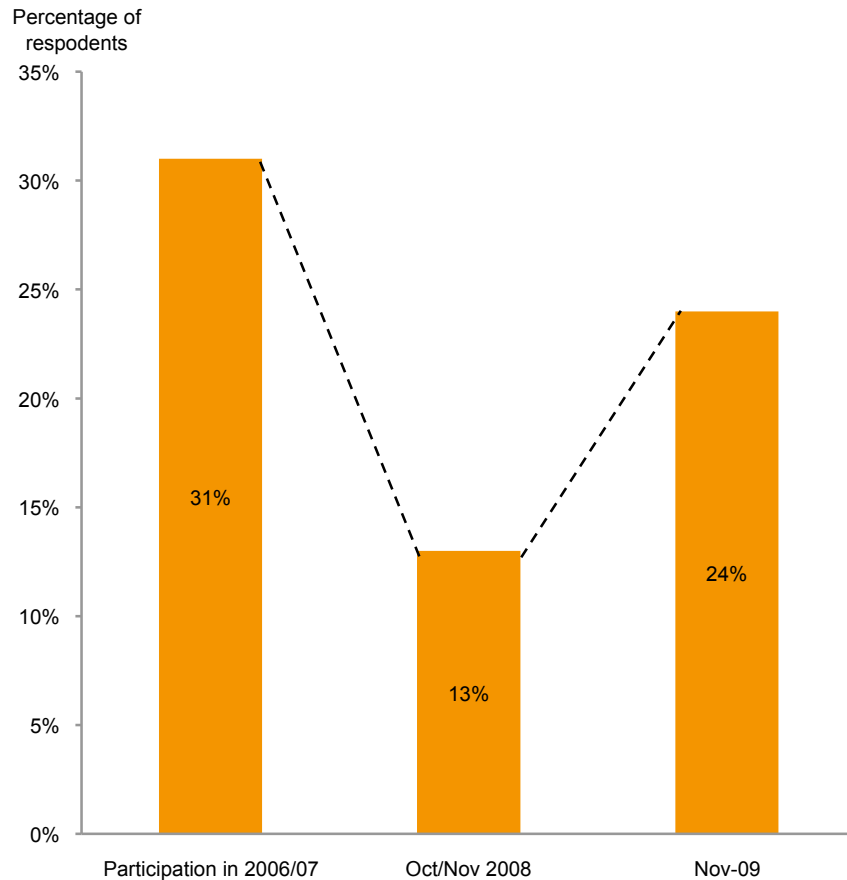
## New business models – PRTS



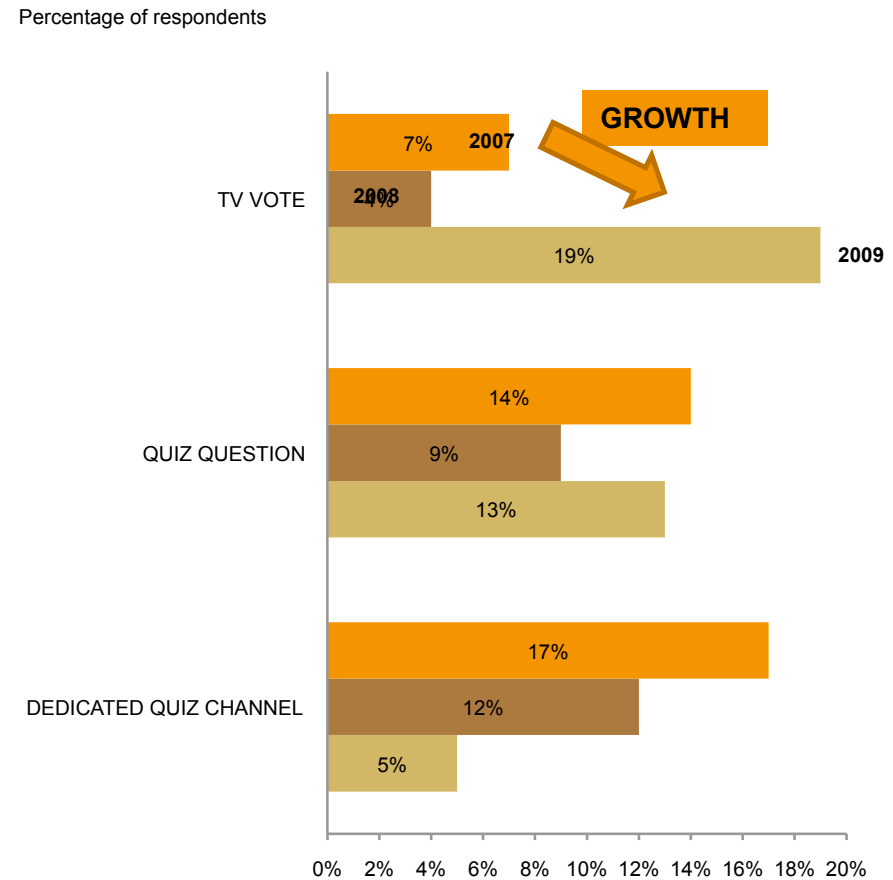
Trends

Participation TV has recovered from the scandals of 06/07, with shows such as the *X Factor* and *Strictly Come Dancing* increasing TV voting significantly – however revenue is unlikely to return to its zenith in 06/07

Respondents claiming to have participated in last 12 months



Participation by method



# What's likely to happen in 2010?

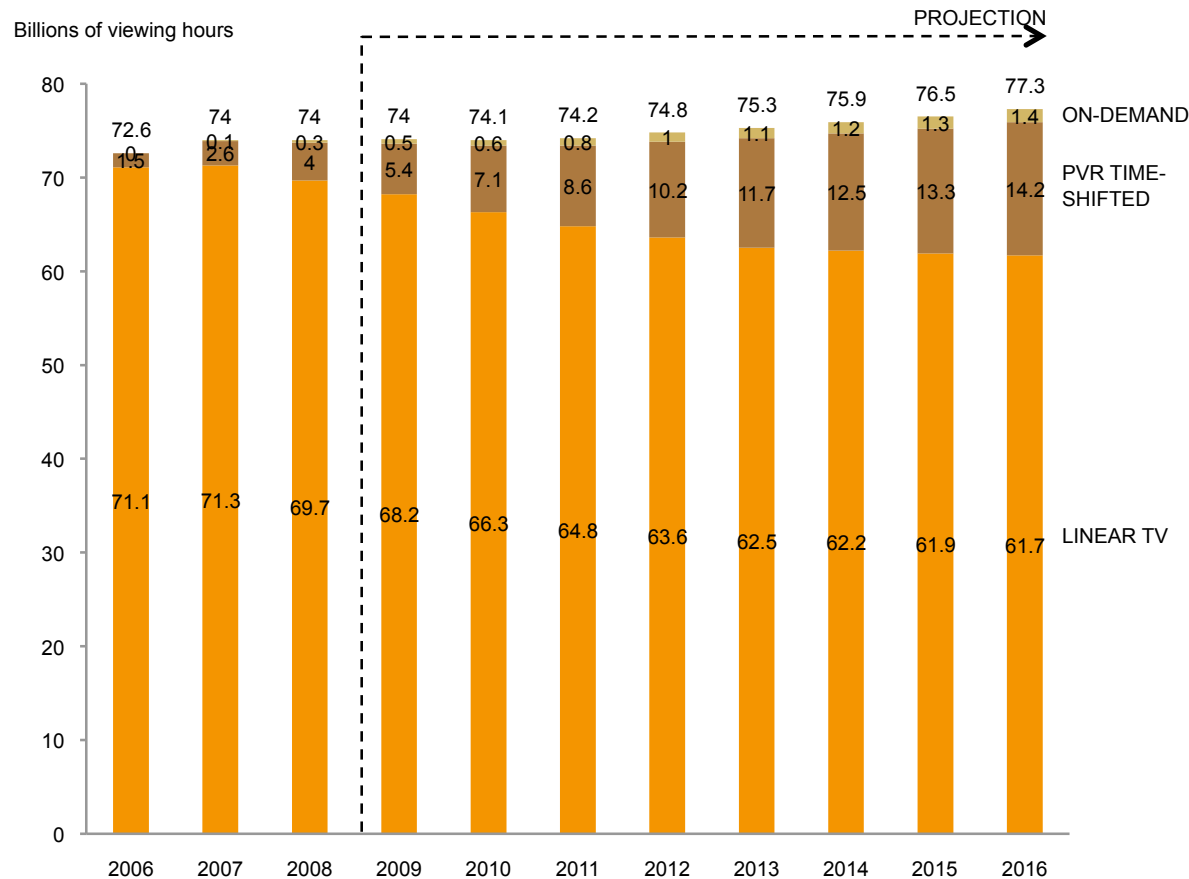
## New business models – Video on Demand



Trends

VoD is moving towards critical mass in terms of reach but linear still dominates viewing and will continue to do so for the foreseeable future...

Total Annual TV audience split by viewing method, 06-16



- On demand use has rapidly increased in the last year
- Although time-shifted viewing will be main cannibal of linear viewing
- On demand still only 2% of all viewing in 2016

# What's likely to happen in 2010?

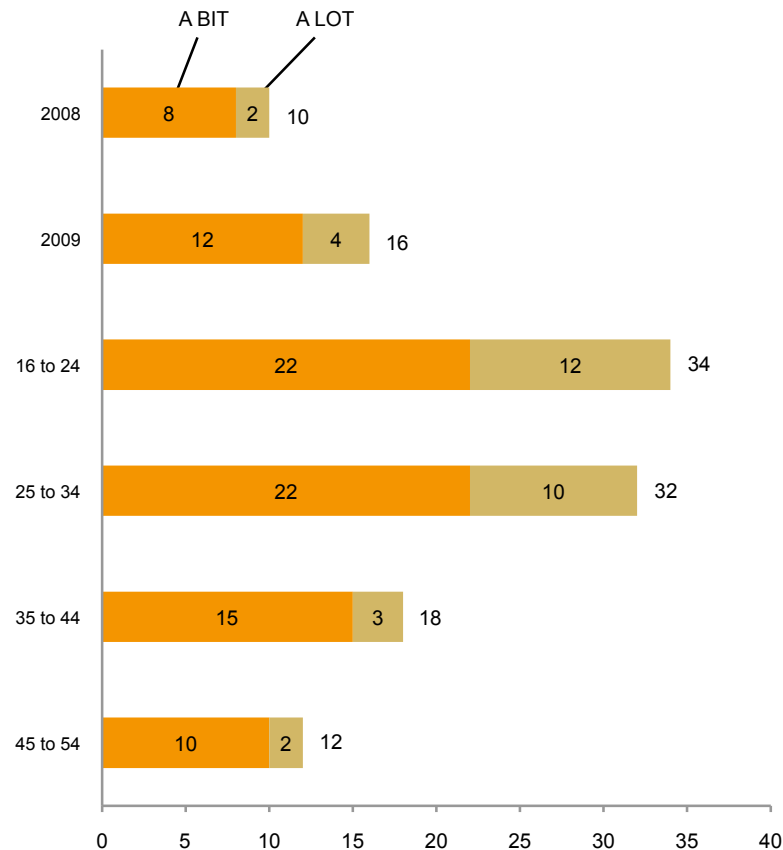
## New business models – Mobile TV



Video via mobile is on the rise, though usage is still limited with only a third of 16 to 24 year olds watching video content via a mobile device. For those watching, UGC clips dominate usage rather than professionally produced programming

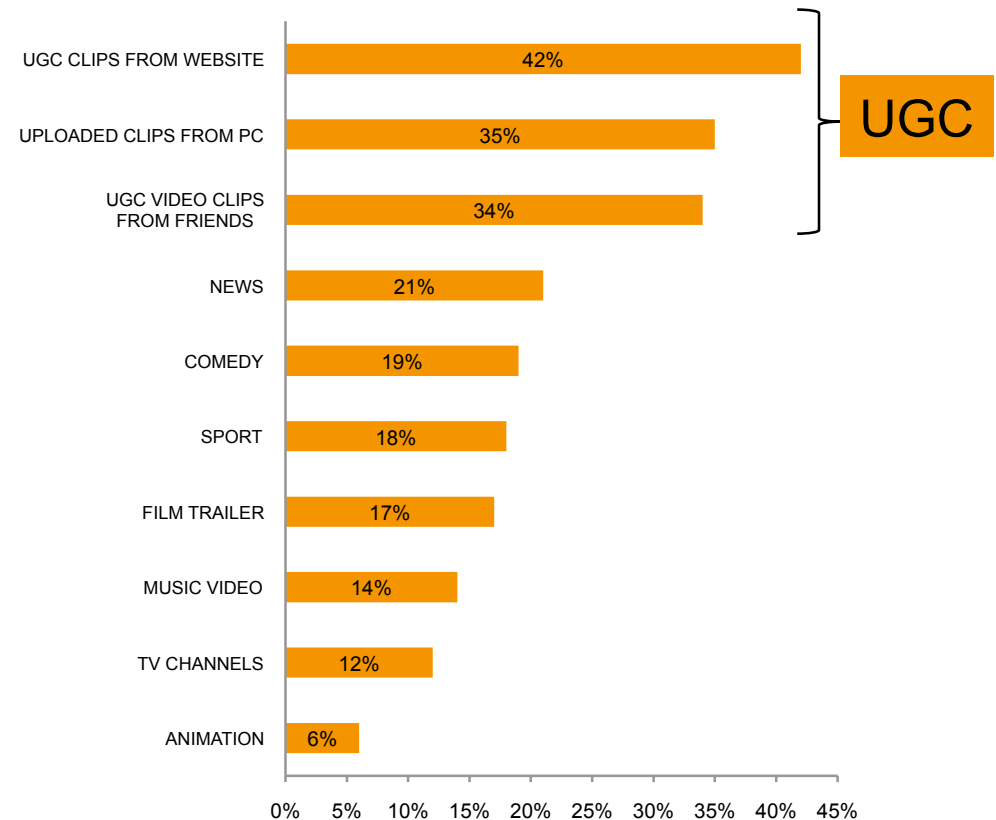
Respondents who have watched video clip on mobile phone over last 12 months

Percentage of respondents



Percent of those who have watched via mobile - what have they watched?

Percentage of respondents



# What's likely to happen in 2010?

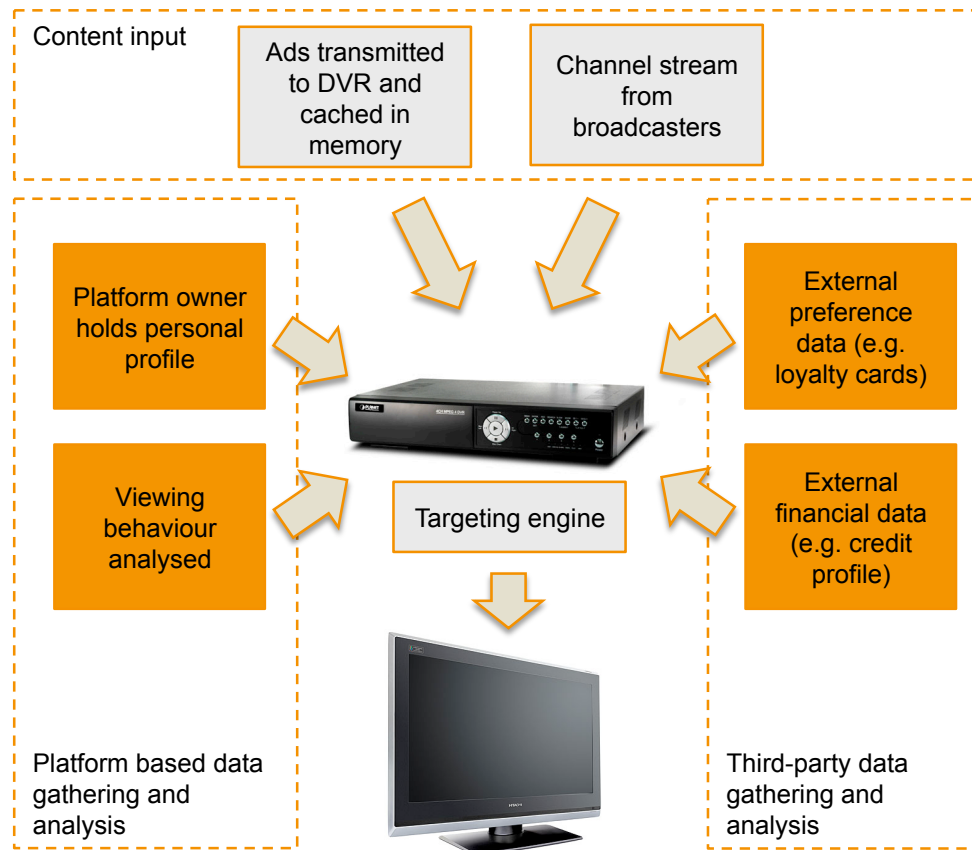
## New business models – targeted advertising



Trends

The introduction of targeted advertising may not happen until post 2010 although may start to pull up broadcasters to some kind of level playing field with online targeting...

Example: Potential inputs to a TV targeted ad platform



# What's likely to happen in 2010?

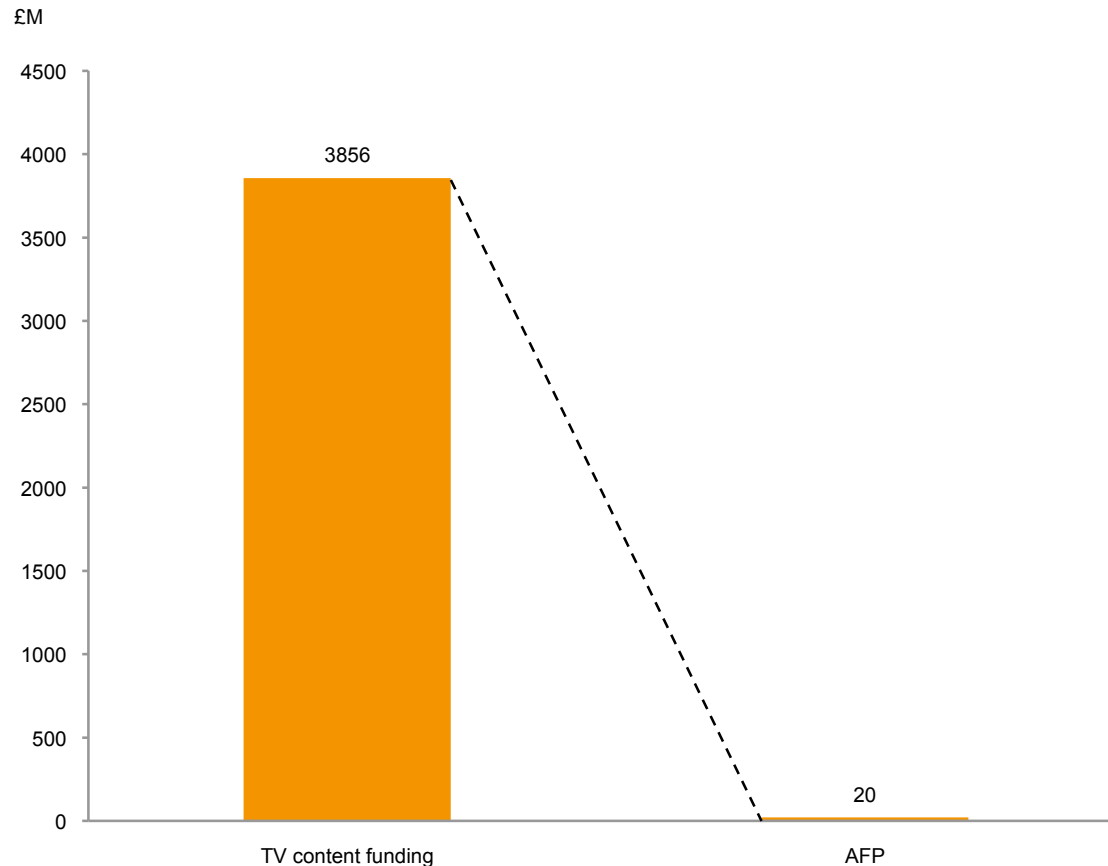
## New business models – advertiser funded programming



Trends

Pre-financing of content through advertisers will be one way for broadcasters to diversify risk however remains a very small portion of the market and may not grow significantly given AFP being confined to a handful of titles...

AFP in context of overall content funding, 2008



- Growth in AFP so far limited
- Product placement may open door to more
- Less than 0.5% of content market in 2008
- Confined to a limited number of programmes

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## What's likely to happen in 2010?

New business models – unlikely to change the game

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New business models are unlikely to be game changers – majority are too long term to make any big difference in the short term

### NEW BUSINESS MODELS

- Product placement – £25-£30m in revenue
- PRTS – limited titles and high regulation
- VoD – less than 1% of viewing (micropayments)
- Mobile TV – uptake low, no professional content
- Targeted advertising – not until after 2010
- AFP – no new revenues, shifting of ad spend



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## What's likely to happen in 2010...and beyond?

New approach to core business

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Trends

More likely to have a significant impact are new approaches to the core broadcasting structure

### NEW APPROACH TO CORE BUSINESS – REBIRTH?

- The pay TV opportunity
- Further consolidation
- Polarisation
- Market exit
- New tiering structure



# What's likely to happen in 2010...and beyond?

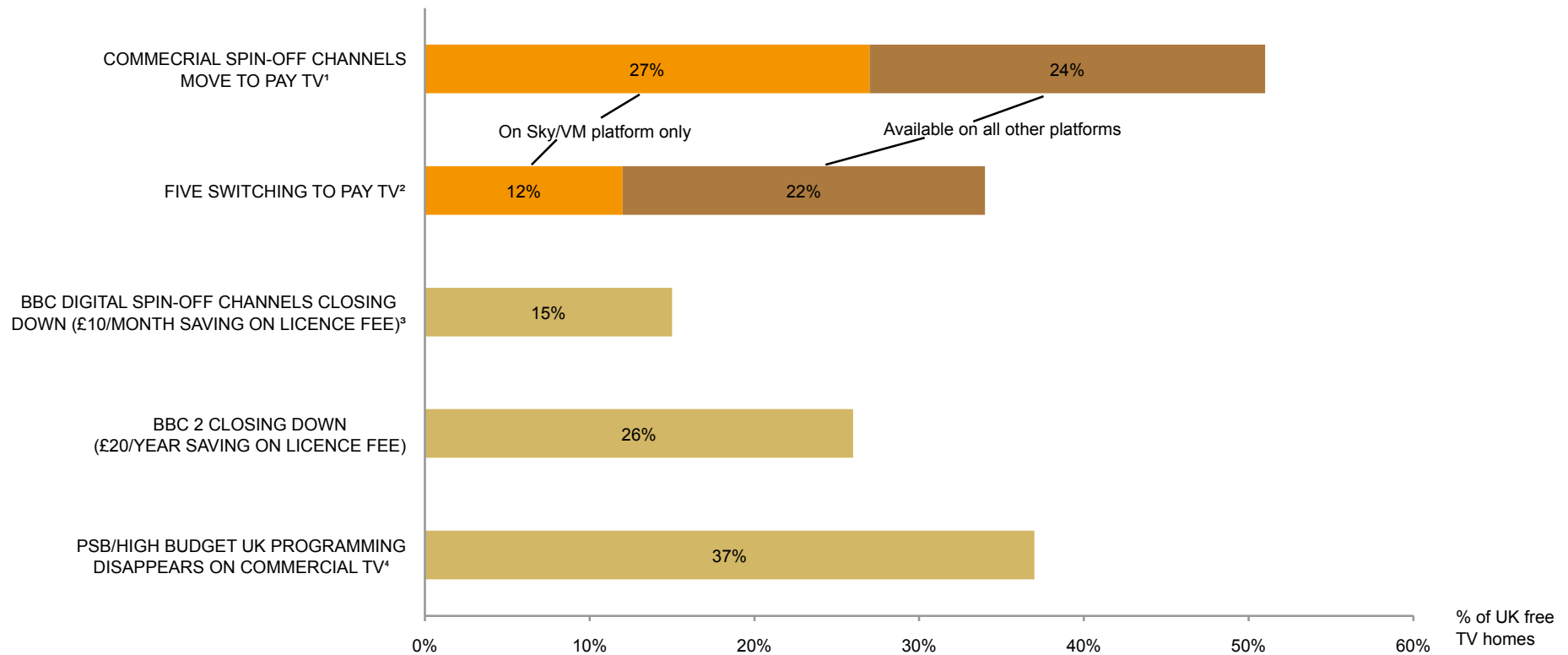
New approach to core business – the pay TV opportunity



Trends

One potential 'big play' for commercial broadcasters would be to embrace a pay TV model which may drive some of its core audience to pay a subscription to view and reduce advertising reliance

Level of interest in switching to pay TV among free TV homes given certain conditions



Notes: 1. For £16/month on Sky/VM (basic pay TV package) and £8/month on all other platforms. Included channels are E4, More4, Film4, ITV2, ITV3, ITV4, CITV, Fiver, Five US  
 2. For £17/month on Sky/VM (basic pay TV package) and £1/month on all other platforms  
 3. BBC3, BBC4, Cbeebies, CBBC  
 4. High budget one-off UK drama, UK comedy, current affairs, regional news, etc.

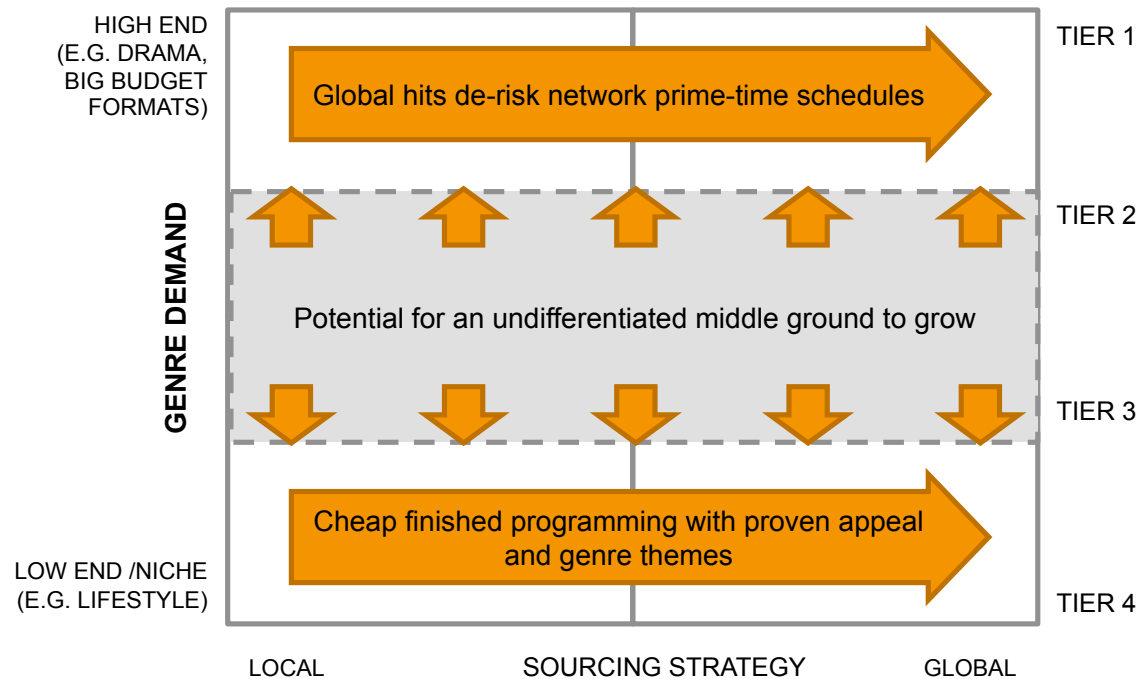
# What's likely to happen in 2010...and beyond?

New approach to core business – consolidation, polarisation & market exit



The coming years are likely to see further consolidation (in crowded markets), market polarisation and the subsequent exit of those broadcasters/content providers 'caught in the middle'

Impact of polarisation trends on content positioning within genre



- Programming demand is polarising towards both high end programming and low end niche categories
- Need to de-risk high end investments and acquire niche product cheaply (more from international market)
- One implication may be a loss of value in the undifferentiated middle ground where price and volume are key drivers

# What's likely to happen in 2010...and beyond?

New approach to core business – a new tiering structure



Currently we have a four tier structure based around incumbent networks, their spin offs, larger pay TV channels and smaller niche/catalogue channels

	DESCRIPTION	ACQUISITIONS STRATEGY			NEW		CATALOGUE	
		PRICE	VOLUME	INTER vs DOMESTIC	US	UK	US	UK
<b>TIER 1</b>	<ul style="list-style-type: none"> <li>• Leading large network</li> <li>• High spend on internationally sold originations</li> <li>• Interest in global brands</li> </ul>	HIGH	LOW	INTER				
<b>TIER 2</b>	<ul style="list-style-type: none"> <li>• Smaller commercial network/ spin off</li> <li>• Some originations spend</li> <li>• Peak time mixture of originations and acquisitions</li> </ul>	MED-HIGH	LOW-MED	MAINLY INTER				
<b>TIER 3</b>	<ul style="list-style-type: none"> <li>• Small DTT commercial channel or large thematic</li> <li>• Similar to tier 2 although smaller budgets, less originations and more domestic acquisitions</li> </ul>	MED	MED	MIXTURE				
<b>TIER 4</b>	<ul style="list-style-type: none"> <li>• Small niche thematic</li> <li>• No originations spend</li> <li>• Focused on volume deals</li> </ul>	VERY LOW	VERY HIGH	MIXTURE				

# What's likely to happen in 2010...and beyond?

New approach to core business – a new tiering structure



Trends

Changes to the industry's structure may well result in a new tiering structure – some tier 2 originating more; some tier 3 becoming niche channels; and a number of catalogue channels exiting the market

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## How will this all impact programming strategies?

De-risking driving strategies

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Trends

Across the industry broadcasters have been looking to reduce the level of risk taken on in all aspects of business – this has extended to content in the last few years

### THE DE-RISKING IMPACT

- Commissioning models changing - more deficit financing
- Content globalisation will continue
- Broadcasters becoming more reliant on acquisitions...  
...and tried and tested formats
- US remains dominant although may be opening up to international content

## How will this all impact programming strategies?

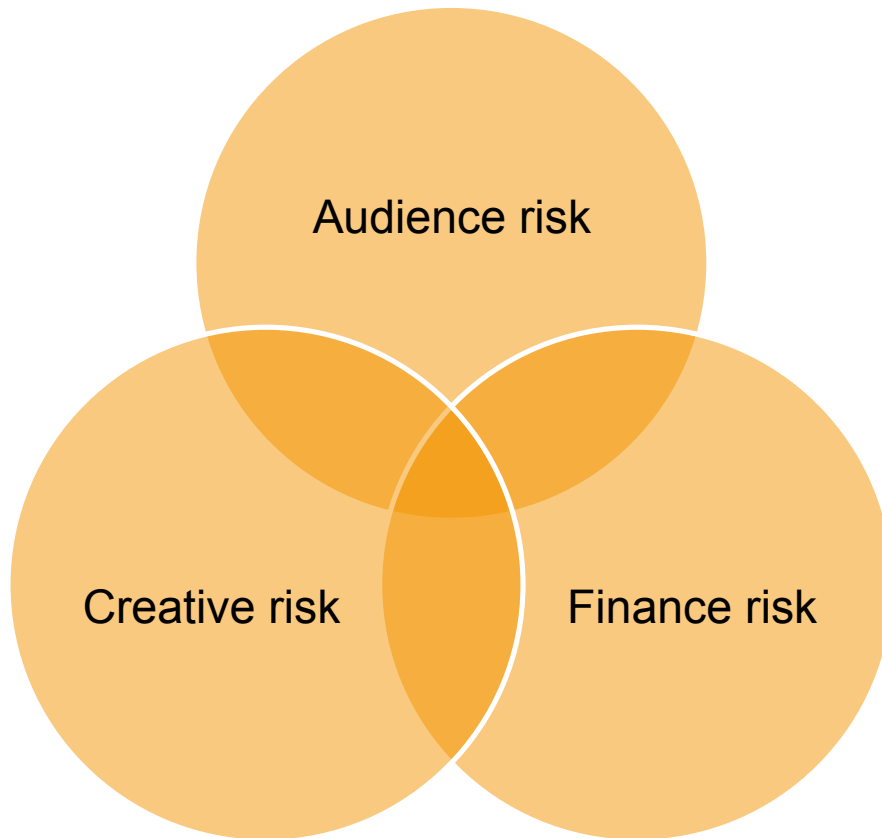
Three types of inter-related risk



Trends

Some of the complexity in the content market can be seen in the inter-play between three different types of risk:

Inter-related risk



### **Audience risk**

- For commercial broadcasters, audience remains the underlying currency of their business and the basis on which content is funded (via advertising)

### **Finance risk**

- The timing gaps and uncertainty between different funding sources for content create a need to manage financial risk – both as a broadcaster and producer

### **Creative risk**

- Returns in the content sector and new audience success require an element of creative risk, something that has previously underpinned UK commissioning

# How will this all impact programming strategies?

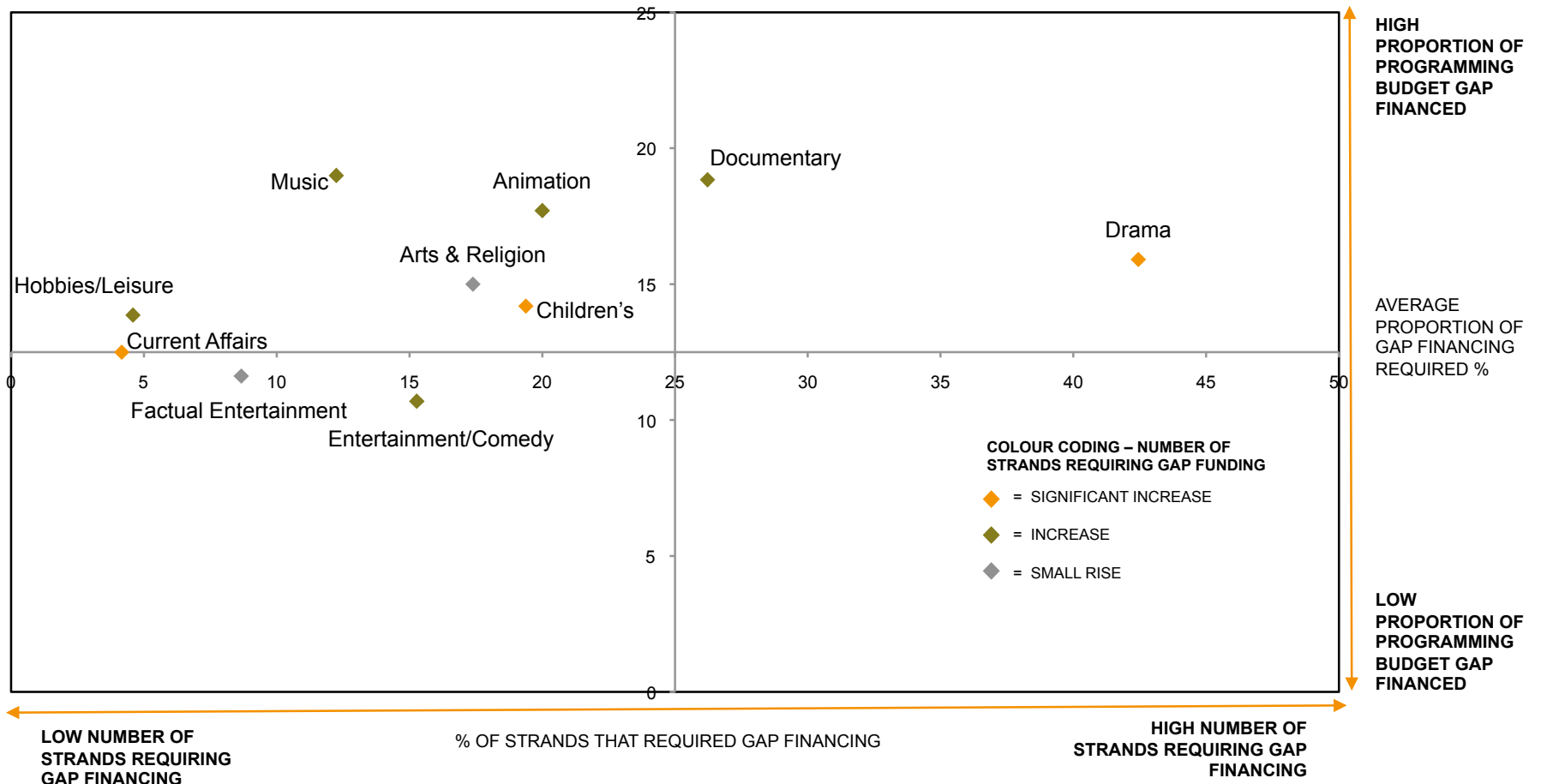
Putting less money upfront



Trends

As a result broadcasters have become less willing to fully fund programming...instead transferring more of the risk to the producer/distributor – evidence suggests this has been most acute in some dramas and documentaries

Level of gap funding required by genre in the UK, 2008 vs 2009



Source: PACT, Oliver & Ohlbaum Analysis

## How will this all impact programming strategies?

Relying on acquisitions and tried and tested formats

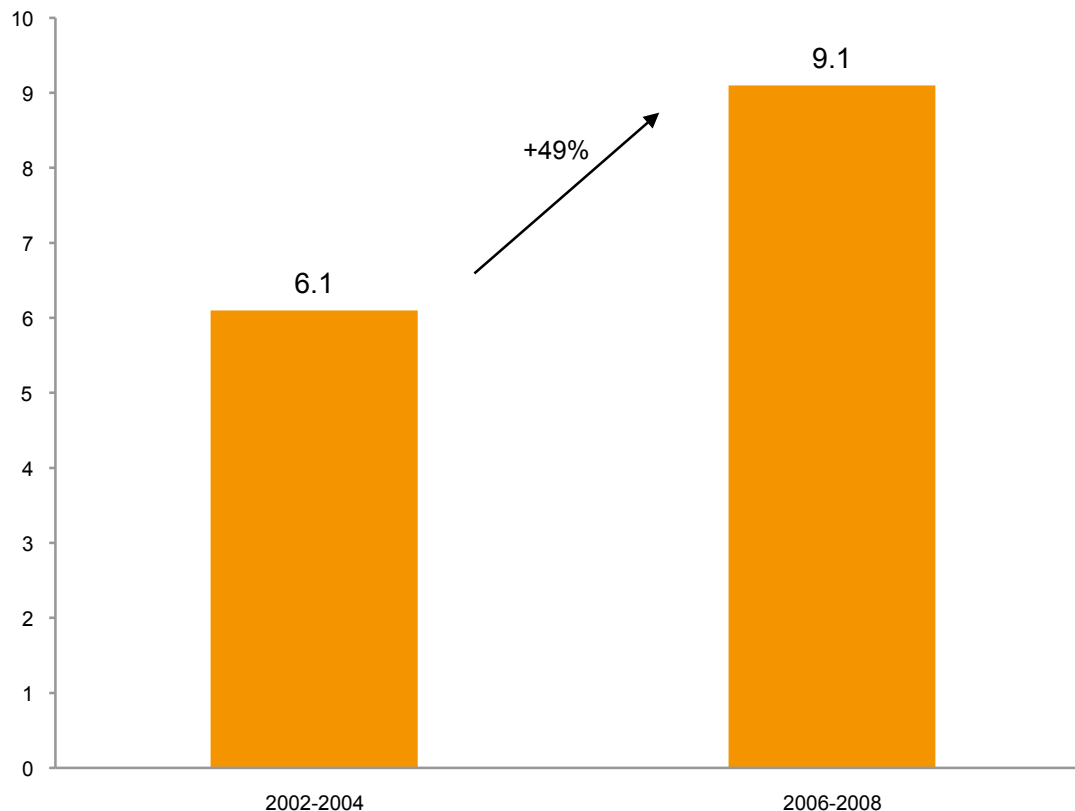


Trends

**Broadcasters (especially those under revenue pressure) have also become more risk adverse in terms of trialling new content which has resulted in rapid growth in the spend on tried and tested formats...**

Format production value(including overseas territory and domestic production of formats)\*

Euro billions



- The global trade in formats has continued to grow, with a sample of major format producing countries showing a 49% increase since 02-04
- FRAPA estimate that the total production value attributable to formats originating from the leading 14 countries between 2006 and 2008 was cumulatively worth €9.1bn

# How will this all impact programming strategies?

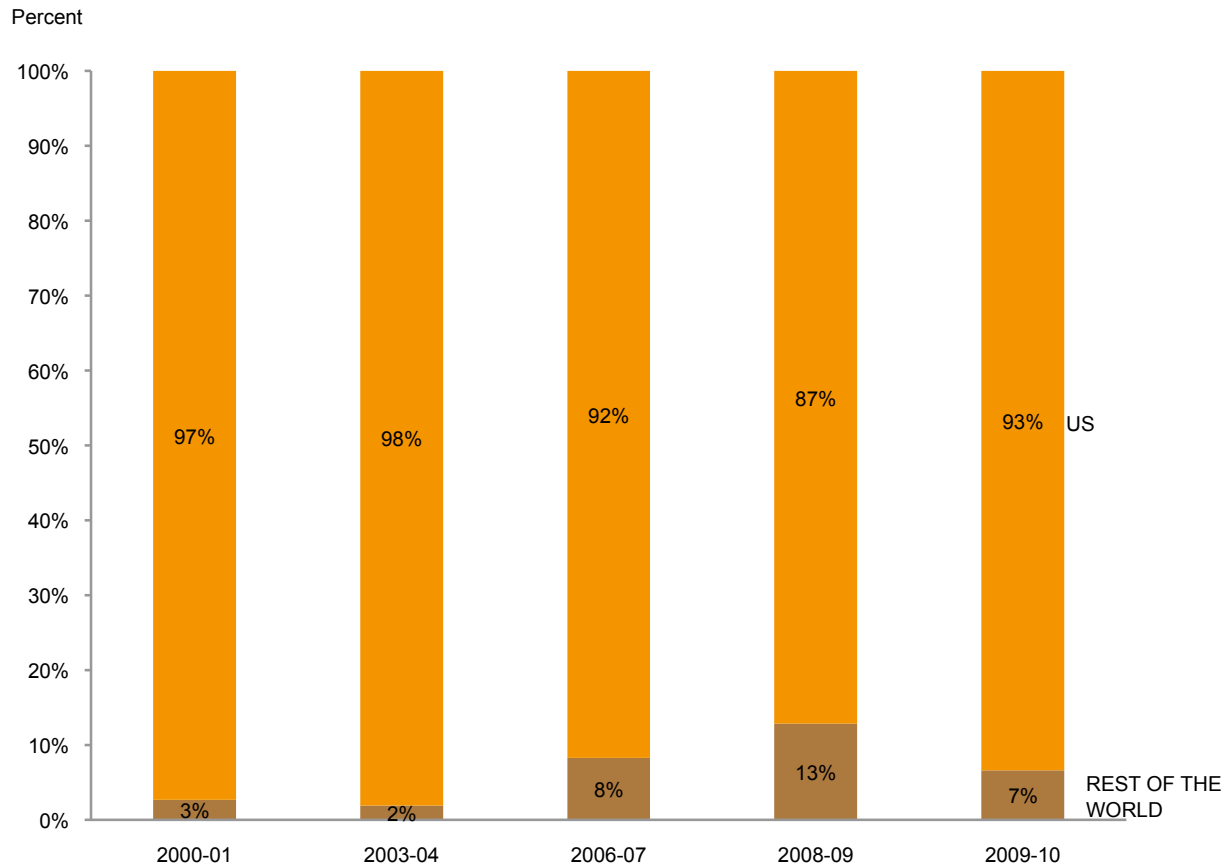
Even the US is opening up



Trends

**..even in the US (where the attitude to risk is significantly different), the broadcast networks have started to rely on local versions of formats in primetime**

Percent of broadcast hours from the US and rest of the world



- The proportion of rest of the world content increased significantly from 2006 to 2009
- Small drop in 09-10 although only fall schedule sampled

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# The new 'content conundrum'

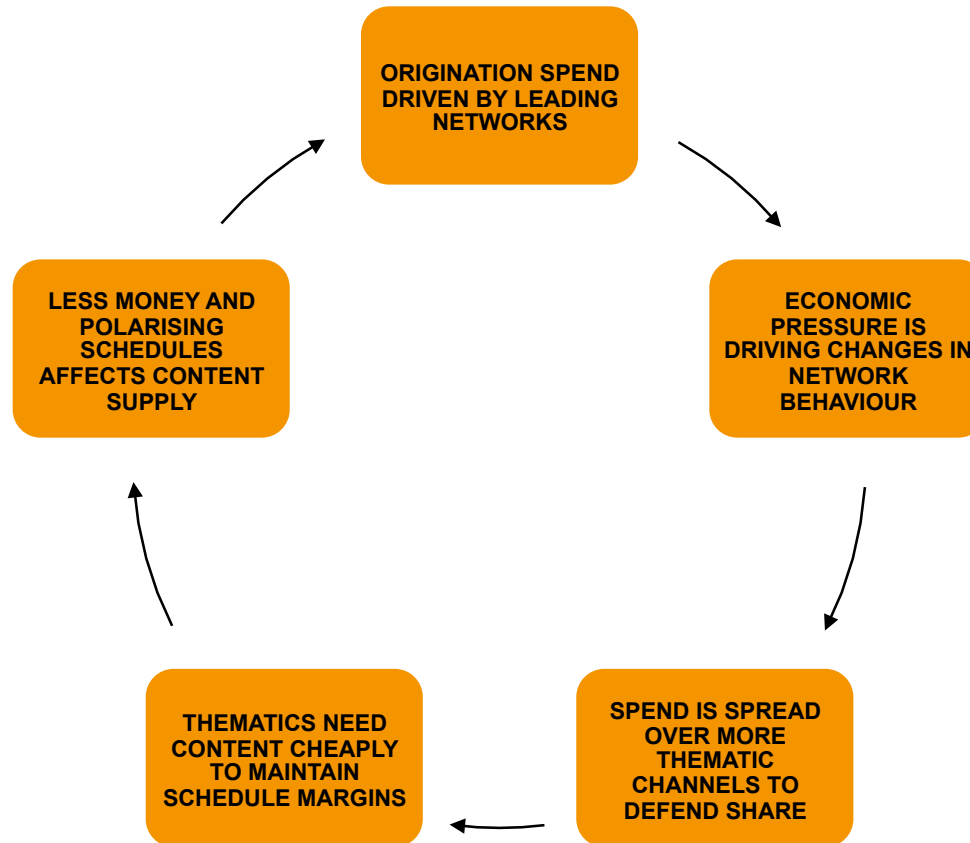
A potential mismatch between supply and demand



Trends

The acquisitions market relies on someone having taken the risk on an original commission...as broadcasters shift their spend to a broader, lower risk portfolio originations are being squeezed – who will originate?

Potential reinforcing behaviour driving down origination spend



- The originations market and supply of finished programmes are directly linked
- Broadcaster reactions to fragmentation of audiences are spreading spend more thinly across channels while increasing demand for acquisitions
- However, the polarisation in main network schedules is also affecting the volume and nature of originations
- The combination of these effects could be a 'content crunch' where increasing demand is chasing fewer original productions

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## Conclusions

Some short term relief but don't take your eye of the ball

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Trends

## THE FORTHCOMING YEAR

- Tentative signs of growth in the advertising market
- Pay TV remains strong and no big changes to licence fee
- Broadcaster reactive decisions will help to reduce burden
- New business models may not have the answer
- Broadcasters derisking

## LONGER TERM TRENDS

- Pay TV opportunity
- Restructuring of broadcasting industry

## THE 'CONTENT CONUNDRUM'

- Less risk averse will have to originate and upside will be greater

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## Conclusion

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Trends

Thank you

If you have any questions, please email: [godfrey.mcfall@oando.co.uk](mailto:godfrey.mcfall@oando.co.uk)